MANUFACTURERS HANOVER

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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

The Manufacturing Horizon Brightens . . .

Although overall economic growth remains subdued, one important aspect of the current upswing may be changing. In the 2½ years between mid-1984 and the end of 1986 there was a widening divergence between the rapidly rising consumption side of the economy and the depressed manufacturing sector. Now there is reason to believe that manufacturing has begun to turn around, although the evidence is still tentative and spotty—witness January's plunge in new factory orders for durable goods.

Manufacturing production rose by six-tenths of one percent in January, the fourth monthly increase in a row, notwithstanding slower production in the key automobile industry. Other favorable statistics support the improved manufacturing environment, such as the drop in business inventories in December of 0.5 percent (the largest decline since March 1983). As a result, factories have added 81,000 new jobs since last September in spite of hefty layoffs in some industries. What is more, most of these jobs are in production rather than in the administrative side of industry.

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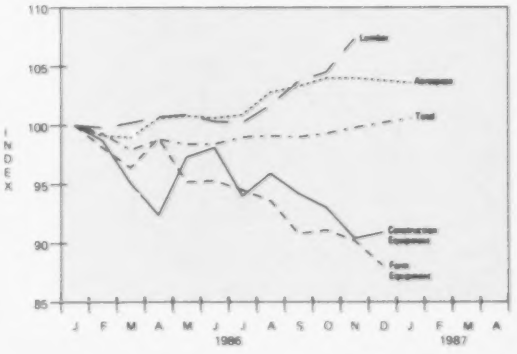
Factory capacity utilization is also rising. Manufacturing operating rates averaged 80.3 percent in January, the highest level in a year. This rise was accompanied by growth in the factory workweek to almost 41 hours. Another encouraging note is that the increase in manufacturing production was accomplished with relatively small gains in the number of hours worked, suggesting that first-quarter 1987 productivity will show substantial improvement. Along with a more realistically valued dollar, this bodes well for U.S. competitiveness over the near term.

. . . But Some Clouds . . .

There are, to be sure, pockets of both strength and weakness in the manufacturing sector (see chart). Several of the high technology industries, particularly those related to defense, continue to be the stars in the industrial firmament. The aerospace industry, for example, has benefited from a combination of growing defense orders and rising civilian demand both in the U.S. and abroad. In the U.S. the deregulation of airlines and rising competition have stimulated these firms to replace obsolete aircraft and expand their fleets. Consequently, industrial production in aerospace jumped a hefty 10½ percent last year. Employment rose 7½ percent in 1986, as jobs were added at the rate of 2,000 per month.

INDUSTRIAL PRODUCTION IN SELECTED INDUSTRIES
(JANUARY 1986=100)



Falling mortgage interest rates have boosted the residential construction industry, the largest single user of lumber, causing a substantial improvement for this industry last year. Output of lumber was up 12½ percent year-over-year as the housing industry enjoyed its best year since 1978. Employment by U.S. producers grew 4½ percent providing 27,000 new jobs in the 12 months through January of this year. Other industries such as furniture and textiles also benefited from the 1.8 million residential units built in 1986.

On the other side of the manufacturing picture are those industries which have remained in deep malaise. The agricultural equipment industry has not recovered from the plagues of global overproduction of food, low prices and the grim financial problems of the U.S. farm sector. This once powerful industry continues to contract and reduce employment. The value of farm machinery shipments fell by about seven percent in real terms in 1986–46 percent below the level of 1981; capacity utilization fell below 50 percent, continuing a long-term downward trend. At the end of 1986

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industrial production in this sector was ten percent below the same period in 1985 and employment had plunged by almost 24 percent, subtracting 11,000 jobs from an already weakened industry. The prospects for 1987 are for a small improvement at best, as the agricultural sector continues in the doldrums.

The construction machinery industry is in much the same condition. Racked by the heavy burden of the earlier strength in the dollar and high manufacturing costs in the early years of this decade, the U.S. construction machinery industry lost market share to foreign competitors both in the U.S. and abroad. The subsequent drop in the value of the dollar against some currencies has not yet been reflected in significant improvement for this industry. In spite of widespread retrenchment and lower labor and materials costs, U.S.-built construction machinery remains relatively expensive. What is more, the major users of heavy construction equipment—the commercial and industrial construction industries and mining—are also in the doldrums, limiting domestic sales opportunities. Last year production

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/11/87)	156,698	+ 1,194	– 10,733
New York City (2/18/87)	36,774	+ 266	– 331
Commercial Paper			
(2/18/87)	336,632	– 375	+ 37,774

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/11/87)	283,138	– 786	+23,953
New York City (2/18/87)	65,889	– 114	+ 7,907

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/11/87)	788,026	+ 132	+67,111
New York City (2/18/87)	175,515	+ 1,362	+16,267

Financial Markets

	Friday 2/27/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	5.57%	+ .02	– 1.68
180-Day Bills †	5.65	–0–	– 1.70
Longest Bills †	5.85	+ .02	– 1.57
Recent Issues:			
6 1/4S 2/28/89 (When Issued)	6.30	NA	
6 5/8S 12/31/90	6.61	– .05	
7 1/4S 11/15/96	7.16	– .04	
7 1/2S 11/15/16	7.47	– .07	
Municipals:			
Bond Buyer–20 Bond Index* (2/26/87)	6.59%	– .03	– .39
Blue List Total ($ Million)	$2,016	– $ 44	+$ 686
30-Day Visible Supply ($ Million)	$4,330	+ $949	+$2,856
Total	$6,346	+ $905	+$3,542
Corporates:			
Moody's Aa Composite (2/26/87)	8.85%	– .03	– .81
30-Day Visible Supply ($ Million)	$2,959	– $286	+$1,485
Stocks:			
Dow-Jones Averages:			
Industrials	2,223.93	– 11.25	+514.93
Transportation	935.68	– 15.87	+143.42
Utilities	218.97	– 3.05	+ 33.14
65 Stocks	849.22	– 8.20	+169.61
N.Y.S.E. Composite Index	162.01	– .81	+ 31.27
N.Y.S.E. Avg. Daily Vol. for Week (000's)	162,996	– 27,832	– 2,156

*46% Taxable equivalent 12.20%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/27/87	Week Ago
Overnight	5.81%	5.75%
1 month	6.31	6.19
3 month	6.31	6.31
6 month	6.31	6.31
1 year	6.44	6.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	7.13%	7.13%
Long Term (7 to 15 yrs.)	7.93	7.93

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/27/87)	U.S. $ Equivalent	Currency Per U.S. $
Canada	.7504	1.3326
France	.1645	6.0790
Germany	.5481	1.8245
Italy	.0007701	1298.50
Japan	.006527	153.20
Mexico	.0009575	1044.40
Switzerland	.6506	1.5370
U.K.	1.5454	.6471

MH TRADE-WEIGHTED DOLLAR* (2/27/87)	Change Since Week Ago	Change Since 2/27/85
	+0.7%	–5.0%

*Adjusted for Inflation

in this industry plummeted over 11 percent, leading to a drop in employment of 18 percent.

. . . Will Remain

It is clear that improved prospects for the manufacturing sector have not reached all industries. Although heavy industry will continue to play an important role in the U.S. industrial sector, this role will diminish as an engine of growth and provider of employment. Not only will the service sector continue to grow in importance, but U.S. industrial growth will trend toward the production of higher technology, high unit value products and toward products where the U.S. has a clear and decisive competitive advantage. For the foreseeable future, in spite of strong efforts toward lower labor costs and improved productivity, labor-intensive industries requiring middling levels of technological skills will likely continue to go abroad. Technological innovation in the manufacturing process moves rapidly from the innovating country to other countries where such factors as exchange and wage rates many times provide a competitive edge. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/25/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	201.093	– 1.342	+18.965
Loans to Depository Inst.	.614	– .131	– .424
Float	.511	– .320	– .648
Total Reserve Bank Credit	219.024	– 2.955	+20.183
Treasury Deposits with Federal Reserve Banks	4.208	– .063	– 2.714
Currency in Circulation	206.490	– .519	+15.296
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	168.348	– .366	+38.245
	2/25/87		
Member Bank Reserves:			
Total Reserves Held	55.097	– 1.145	+ 9.626
Excess (Deficiency)	1.025	– .472	+ .017
Net Free Reserves	.644	– .693	+ .230
Monetary Aggregates †		**% Change Since 3 Months' Ago***	**% Change Since Year Ago**
M1 (2/16/87)	736.7	+ 16.1‡	+ 17.2‡
M2 (January '87)	2,820.1	+ 8.7	+ 9.5
M3 (January '87)	3,513.6	+ 8.2	+ 8.9
Domestic Nonfinancial Debt (3rd Q'86)	7,410.3	+ 11.4	+ 13.5

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 2/27/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.46%	5.44%	5.58%
* Federal Agencies	5.70	5.67	5.70
* Municipal Notes—High Grade (46% Taxable Equivalent)	6.29	6.29	6.48
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.15	6.15	6.25

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	5.95%	Mar.	6.04%
15- 29 days	6.00	Apr.	6.03
30- 59 days	6.08	May	6.03
60- 89 days	6.05	Jun.	5.96
90-179 days	6.00	Jul.	5.96
180-239 days	5.95	Aug.	5.93
240-270 days	5.95		

‡Industrial Paper—Prime			
30- 89 days	6.10%	†Federal Funds Effective Rate	6.00%
90-120 days	6.05		

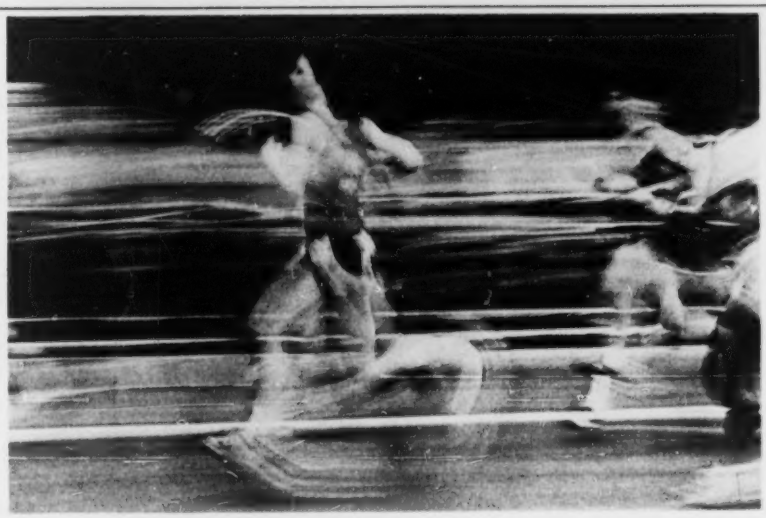
‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'86	$ 4,261r	$ 4,241	$ 4,088
Gross National Product (1982 Dollars)*	4th Q'86	$ 3,698r	$ 3,686	$ 3,622
Percent Change, Annual Rate	4th Q'86	1.3r	2.8	2.1
Change in Consumer Prices*	Jan '87n	8.4% (1)	2.4%	3.6%
Change in Producer Prices*	Jan '87	7.2%	– 1.2%	– 8.4%
Civilian Employment (Thousands of Persons) †	Jan '87	111,011	110,637	108,892
Unemployment as % of Civilian Labor Force †	Jan '87	6.7%	6.7%	6.8%
Personal Income*	Jan '87n	$ 3,548	$ 3,547r	$ 3,417
Leading Indicators Composite Index (1967=100)†	Dec '86	186.1	182.2	173.6
Industrial Production Index (1977=100) †	Jan '87	126.9	126.4	126.2
Net Change in Consumer Installment Credit †	Dec '86	$ 0.11	$ 3.28	$ 6.48
U.S. Merchandise Trade Balance	Jan '87n	–$ 14.78	–$ 12.73r	–$ 14.42
Plant and Equipment Expenditures*	1st Q'87	$386.82(a)	$394.34(a)	$377.94
Private Housing Starts (Thousands of Units)*	Jan '87n	1,806	1,808r	2,004
New Construction Expenditures*	Dec '86	$ 376.0	$ 377.9	$ 365.5
Total Business Inventories †	Dec '86	$ 587.2	$ 590.1	$ 583.2
Total Business Sales †	Dec '86	$ 448.3	$ 435.9	$ 431.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.



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Cont. Because business changes and evolves, financial services change and evolve. Faster and faster and faster—all the time.

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